IMF
SURVEY
A PUBLICATION OF THE INTERNATIONAL MONETARY FUND
January 25, 1993

Prospects for EMU and Impact of NAFTA Examined at Conference

The prospects for European monetary integration, the likely impact of the North American Free Trade Agreement (NAFTA), and the outlook for major economies and financial markets in 1993 were among the subjects discussed at the Eleventh International Monetary and Trade Conference held at the Federal Reserve Bank of Philadelphia on November 23–24, 1992. The conference was organized by the Global Interdependence Center, which is associated with the University of Pennsylvania and is dedicated to promoting dialogue on international issues.

CONTENTS
Volume 22, Number 2

SELECTED TOPICS

Conference Assesses European Monetary Integration and NAFTA
Page 17

IMF ACTIVITIES

Balance of Payments Statistics Yearbook
Page 21

From the Executive Board
Page 23

Currency Units per SDR
Pages 26 and 27

NATIONAL ECONOMIES

Dominican Republic
Page 28

European Integration

Dr. Jürgen Pfister, Head of Economic and Fixed Income Research at Commerzbank in Frankfurt, explored the obstacles on the road to European Economic and Monetary Union (EMU), arguing that the EMU along the lines (and timetable) of the Maastricht Treaty would have little, if any, chance of coming about—even if no difficulties were encountered in ratifying the treaty.

Pfister maintained that, unlike the European Monetary System (EMS), the EMU is based more on political than on economic considerations. "EMU along the lines of the Maastricht Treaty is a surrogate for political integration, which has failed to take on a more concrete form in the treaty," he said.

Even in Germany, there are reservations about the EMU, both within the Bundesbank and among substantial sections of the public, according to Pfister. He indicated that these reservations stem from the following:

- Germany has a fairly stable and internationally prominent currency. Moreover, its central bank is independent not only of the Government but also, largely, of other central banks. Therefore, Germany has little to gain and much to lose. *(Please turn to page 18)*

Adams: "NAFTA is really about capital movements, transfer of technology, and location of production."

READEX
FICHE

Speakers Explore NAFTA and Outlook for 1993

(continued from front page) • The leeway given for discretion in the conduct of monetary policy under the Maastricht Treaty suggests that a future European currency might not be as stable as the deutsche mark.

• If, between now and 1997, several member countries of the European Community (EC) try to reduce their public sector deficits or debts relative to their GDPs by pushing their inflation rates down to 3 percent or lower, they would experience a prolonged period of slow growth. However, if they interpret the criteria for economic convergence implied by the Maastricht Treaty more generously, this might lead to an average inflation rate that was unacceptably high.

• Several important questions remain unresolved. For example, what are the implications of the EMU for national fiscal policies? Would a common currency increase pressure for wage equalization, and would that not, in turn, intensify regional problems? Are richer countries willing to transfer resources to poorer countries within the European Community? And can a monetary union be stable in the absence of a political union?

Even if the treaty is ratified by mid-1993, Pfister said, there would remain several obstacles to the EMU as proposed by the Maastricht Treaty. In the short term, weak growth and high and rising unemployment would inhibit more integration, whereas in the medium term, the EC countries need to address the unresolved questions indicated above before they can reach political consensus. Pfister added, however, that further monetary integration is possible and desirable if it is guided by economic convergence *outside* the Maastricht process.

"For the next five years at least," Pfister concluded, "there is little or no chance of monetary integration in Western Europe which could challenge the international role of the dollar." There will either be more integration and less currency stability or less integration and a more stable deutsche mark. Political choices will determine which of these alternatives will prevail.

"For the next five years at least, there is little or no chance of monetary integration in Western Europe which could challenge the international role of the dollar."

Turning to the recent strains within the EMS, Pfister noted that these have resulted not so much from the uncertain future of the Maastricht Treaty as from the combination of slow growth and overvalued currencies, on the one hand, and high German interest rates, on the other. He suggested that an early re-entry of the pound sterling and the Italian lira into the EMS is "neither expected nor warranted." The stability of the EMS without these two currencies depends on growth prospects in EC countries and the speed with which German short-term interest rates will be reduced. With regard to the latter, expectations outside Germany appear to be "overly optimistic," Pfister said.

NAFTA

F. Gerard Adams, Professor of Economics and Finance at the University of Pennsylvania, considered the impact of NAFTA on the economies of Mexico and the United States, with particular emphasis on the impact of capital and labor movements.

What makes NAFTA different from other free trade areas, according to Adams, are the great differences between the participants. Whereas earlier free trade areas (such as the original European Common Market) were arrangements among countries that were at similar stages of development, NAFTA is an arrangement between two advanced industrial countries and one (relatively much) less advanced country. Adams pointed out that the discrepancy in per capita income between the countries (in 1990, Mexico's per capita income was US$2,490, while that of the United States was US$21,790) reflects differences in capital availability, technological development, infrastructure, and resource availability. The consequence of the disparity between the countries, therefore, Adams continued, "is that NAFTA is really about capital movements, transfer of technology, and location of production."

What is the potential impact of NAFTA on the Mexican economy? Adams first noted that general-equilibrium models that assume constant returns to scale and product differentiation show that the elimination of tariffs and nontariff barriers between Mexico and the United States will yield relatively small welfare gains. These gains will amount to less than 2 percent of GNP when the tariffs are eliminated and to 22 percent of GNP when both tariffs and nontariff barriers are eliminated. The gains are some-

what larger when increasing returns to scale are allowed for.

The key to obtaining significantly greater welfare benefits, according to Adams, lies in the inclusion of foreign direct investment and related technology transfers. He pointed out that a study he co-authored with M. Alanis and A. Beltran del Rio shows that, assuming capital inflows to Mexico range from US$1.5 billion in 1992 to about US$5 billion in 2001 and that these inflows are accompanied by increases in investment and productivity gains, Mexico's growth rate would be 13 percent to 14 percent higher over those ten years than it would have been in the absence of NAFTA. Adams stressed that this calculation also assumed the elimination of tariffs; the elimination of selected nontariff barriers in textiles, automobiles, and iron and steel; increases in foreign direct investment; and changes in policies relating to government consumption and investment to enhance the supply side of the economy. According to Adams, the study also shows that NAFTA would result in

- substantial job creation in Mexico;
- a significant reduction (of 200,000 persons a year) in migration from Mexico to the United States; and
- increases in exports amounting to US$20 billion over ten years, although these would be almost matched by increases in imports.

Adams noted that since foreign direct investment seems to be the main source of gains from NAFTA, it has been argued that the reduction of tariffs and the elimination of nontariff barriers are secondary. "But one should not forget," he added, "that freedom of trade is a necessary condition for capital flows, since a large part of the investments will be in plants producing for the U.S. market."

How would NAFTA affect the U.S. economy? According to Adams, the United States will probably gain in aggregate terms—although not as much, relative to economic size, as Mexico. The gains will stem not only from an increase in low-priced Mexican imports but also from higher exports in response to expanded capital investment and consumption in Mexico. However, the impact on different sectors, groups, and industries will vary, at least in the short term. For example, U.S. labor may suffer some wage loss because of outsourcing to Mexico. But U.S. capital goods sectors may well gain in the wake of additional demand for such goods from Mexico. Adams emphasized, however, that from the U.S. point of view, Mexican competition will not differ greatly from the competition already provided by industries in other countries, particularly those in East Asia. "It makes little difference to the American consumer or the American worker whether VCRs being purchased come from Mexico or from farther away," he said.

Finally, Adams considered the implications of NAFTA for flows between North America and the rest of the world. He thought it "entirely possible" that foreign direct investment that would otherwise have gone to East Asian countries will be diverted to Mexico and that Mexico's proximity to the United States will make it more economical to produce there than in East Asia. Investors from other parts of the world may see Mexico as an entry point into the large North American market and, perhaps, eventually into a larger market encompassing Central and South American countries as well. Such trends, Adams concluded, would be "not so much a matter of protectionism as a consequence of increasing integration of the region's market as barriers to trade and capital flows come down."

Outlook for Major Economies and Financial Markets

Scott E. Pardee, Chairman of Yamaichi International (America) Inc., a financial services company, considered the outlook for financial markets and currencies in 1993 in the light of developments in the the U.S., European, and Japanese economies.

Pardee noted that, after experiencing a "grim year" in 1992, the U.S. economy is likely to pick up somewhat in 1993, given improved consumer sentiment and, possibly, reflationary initiatives by the Clinton administration. Even so, very strong growth is unlikely, he said. Bond market participants remain skeptical that the fiscal deficit will be reduced, which will put upward pressure on interest rates. Also, the U.S. trade deficit has jumped from $50 billion a year to about $100 billion a year, and any economic stimulus could lead to a 30

further widening of that deficit, which could then exert a drag on the economy. In short, "the U.S. economy may become the locomotive for the rest of the world, but it would be a very slow locomotive indeed."

Pardee: The U.S. economy is likely to pick up in 1993.

Turning to Western Europe, Pardee suggested that the outlook for economic growth there in 1993 is "not optimistic—1 percent to 1½ percent at best."

Most notably, he indicated that, in response to tight money policies prompted by a large fiscal deficit and rising inflation, the German economy is "cooling rapidly" and may experience several months, and even several quarters, of negative growth and rising unemployment. This is bad news for other European countries, which are experiencing either recessions of their own, such as the United Kingdom, or sluggish growth, such as France. The upshot is that "Europe is not likely to be a locomotive for growth."

The Japanese economy is going through "a major adjustment," according to Pardee. One problem is that the real estate and stock market bubbles have burst, which has left many financial institutions with serious problems. The only strategy the Government can follow, he suggested, is to "buy time," keeping owners and lenders afloat until market conditions improve. He pointed to several actions being taken, including the writing down of nonperforming loans and capital pooling by banks to transfer some of these loans to a separate entity. "If worse comes to worse," Pardee pointed out, the Ministry of Finance could change accounting rules at the end of March, which would tide financial institutions over for six months to a year. "Japan has not allowed a bank to fail since the war and is not about to do so now," he said.

Japan's second major problem, according to Pardee, is a slowdown in production. He noted that, with sales down, manufacturers are cutting back on current operations and on investment in plant and equipment. With the trade surplus having widened and protectionist pressures abroad rising, Japan cannot rely on the foreign sector to pull it out of the slowdown; "the recovery must be homegrown." However, the Government's fiscal stimulus package (which was announced in August 1992) has been delayed because of political difficulties; thus, "Japan can't be a locomotive either."

In the light of these broad developments, Pardee discussed the outlook for the U.S. bond market, the Japanese stock market, and the foreign exchange market. He indicated that one's view of the outlook for long-term U.S. treasury bonds depends largely on one's expectations of the Clinton administration's fiscal stance: those who foresee the adoption of high-tax, high-expenditure policies forecast that interest rates on long bonds will rise to about 10 percent toward the end of 1993. On the other hand, those who expect that the new stimulative measures will be cautious and that the administration will work with the U.S. Congress to put together a credible debt-reduction package predict that the long bond will be at 6–62 percent. Pardee forecast that the long bond will be at 8 percent on the basis of his projected revival of the economy and of an additional $50 billion or so of fiscal stimulus to be financed. The debt-reduction package will "not be credible," he said, "until we see the Treasury in fact begin to borrow less money in the market." "That won't be until fiscal 1994, if then."

The Japanese equity market will probably remain sluggish until the start of the new fiscal year in April 1993, according to Pardee, by which time the Government's stimulus package will be helping the economy. Moreover, the Bank of Japan will have cut interest rates further, corporate earnings will be improving, and much of the nervousness about land values will have passed. Pardee cited four reasons for optimism over the long term: Japan will soon return to 3-4 percent growth in GDP; its companies are among the most dynamic and profitable in the world; its savings remain high; and the Government is clearly concerned about how the market is performing and will take action, as necessary, to foster its recovery.

The foreign exchange market will be "the most volatile of all," according to Pardee. He argued that the turmoil in the EMS last September shows that it was "certainly too soon" to link the pound sterling and the Italian lira to the deutsche mark. He suggested that once Germany lowers its interest rates, and others can follow, the worst strains may be over among the European currencies.

Turning to prospects for the U.S. dollar in 1993, Pardee observed that increased economic growth in the United States and sluggish growth abroad will lead to a widening of the U.S. trade deficit to about $120 billion. Moreover, he added, foreign investors are not expected to increase their placements in the United States during 1993, given current interest rates. Therefore, based on economic fundamentals, the dollar could weaken. However, given global political uncertainty, the dollar is likely to continue to be a safe-haven currency. Also, interest rates may decline quite sharply in Western Europe and somewhat further in Japan—which would put upward pressure on the dollar. On balance, Pardee concluded that in 1993 "both extreme levels for the dollar—high and low will be tested."

Vikram R. Khanna,
Assistant Editor, *IMF Survey*

Photo credits: University of Pennsylvania, page 17; Corporate Photographers Inc., page 19; Inter-American Development Bank, pages 29 and 31.

IMF ACTIVITIES

Sharp Changes in Global Balance of Payments Picture Occurred During 1991, Says IMF Report

The current account deficit of the industrial countries dropped sharply to $18.5 billion in 1991, from $108.2 billion in 1990, while the deficit of the developing countries widened to $81.0 billion in 1991 compared with $12.0 billion the previous year, according to the IMF's 1992 *Balance of Payments Statistics Yearbook* (*BOPSY*). Among the developing countries, the oil exporting nations recorded a deficit of $51.8 billion in 1991 compared with a surplus of $10.0 billion in 1990. Meanwhile, the deficit of the non-oil developing countries increased slightly, to $29.2 billion in 1991 from $22.0 billion in 1990.

Industrial Countries

The reduction in the current account deficit of $89.7 billion in 1991 was mainly the result of an improvement in the merchandise account of $46.4 billion (to a surplus of $9.0 billion) and a reduction of $31.2 billion in the unrequited transfer deficit, most of which was due to official transfers. The improvement in the merchandise account was caused largely by the substantial increase in Japan's trade surplus, to $103.1 billion in 1991 from $63.6 billion in 1990, and by a substantial decrease in the U.S. deficit, to $73.4 billion from $108.8 billion. The improvement would have been larger but for a marked reduction in Germany's surplus to $23.5 billion in 1991 from $71.7 billion in 1990.

The deficit on official transfers was reduced significantly during 1991 to $30.8 billion, from $62.7 billion the previous year, as a result of transfer credits almost doubling to $115.3 billion while debits increased by 18 percent to $146.1 billion. The increase in credits was due mainly to receipts by the United States of $42.5 billion of nonrecurring cash contributions from its coalition partners in Operation Desert Storm. The increase in debits reflected both the payments to the United States by its coalition partners and debt forgiveness by a number of industrial nations.

Relative to current payments, the current account deficit of the industrial countries dropped sharply to 0.5 percent in 1991, from 2.7 percent in 1990. These levels contrast with the previous lowest ratio of 1.3 percent in 1986 and a peak of 3.1 percent in 1985.

The reduced current account deficit in 1991 was accompanied by a large inflow of long-term capital of $90.0 billion compared with an outflow of $12.0 billion in 1990. However, owing to short-term capital outflows of $79.7 billion in 1991, compared with an inflow of $110.7 billion in 1990, the overall balance, excluding the items "exceptional financing" and "liabilities constituting foreign authorities' reserves," swung into a deficit of $11.7 billion in 1991 from a surplus of $21.9 billion in 1990. The deficit in 1991 was financed primarily by a reduction in reserves of $10.9 billion, compared with an increase in reserves of $57.3 billion the year before.

Net capital inflows, including changes in reserves, declined to $21.9 billion in 1991 from $76.8 billion in

Summary of Global Current Account Balances

(billion U.S. dollars)

	1985	1986	1987	1988	1989	1990	1991
Current account, n.i.e	-80.2	-66.2	-48.6	-59.5	-75.9	-112.5	-91.1
Merchandise f.o.b.	6.6	0.2	22.6	30.0	17.5	19.7	20.8
Shipment	-24.6	-25.6	-30.2	-31.8	-33.1	-35.7	-41.6
Other transportation	-0.7	1.3	0.3	-0.5	-2.9	-2.8	-1.4
Travel	2.9	3.4	1.4	-3.8	—	0.4	3.5
Reinvested earnings on direct investment	15.6	16.8	27.8	25.2	35.0	50.4	46.1
Other direct investment income	-9.8	-2.2	-3.0	3.3	5.8	-7.4	-04.1
Other investment income	-53.0	-54.8	-68.3	-73.1	-77.2	-92.5	-90.4
Other official goods, services, and income	-12.9	-10.5	-8.9	-11.4	-15.6	-14.0	-27.9
Other private goods, services, and income	-0.4	12.3	14.4	9.8	11.1	8.4	30.8
Private unrequited transfers	9.0	9.6	13.5	12.1	5.6	6.8	-2.9
Official unrequited transfers	-12.9	-16.8	-18.1	-19.4	-22.2	-45.6	-24.0

Note: A minus sign indicates a debit figure; n.i.e. indicates data not included elsewhere.

Data: IMF, *Balance of Payments Statistics Yearbook*, Vol. 43, Part 2 (1992)

1990. The net acquisition of foreign financial assets declined by 47 percent to $478.4 billion, and the net incurrence of foreign liabilities declined by 49 percent to $500.4 billion in 1991.

The net acquisition of foreign assets in 1991 resulted mainly from direct investment abroad ($175.7 billion) and a marked increase in transactions in long-term securities, that is, portfolio investment assets ($308.4 billion). Even so, the uninterrupted upward trend in direct investment abroad since 1984 was broken in 1991, with the value of transactions falling by 23 percent. This reduction was evident for almost all industrial countries, but to differing degrees. The acquisition of long-term foreign securities increased by almost 90 percent to $308.4 billion in 1991, following a decrease of 28 percent in 1990. The large increase in 1991 was accounted for by a number of countries, notably the United States (56 percent, to $45 billion), Japan (85 percent, to $74.4 billion), the United Kingdom (145 percent, to $56.7 billion) and Belgium-Luxembourg (130 percent, to $34.0 billion).

Long-term securities represented the most significant component in the net incurrence of foreign liabilities by industrial countries during 1991 (a net inflow of $379.9 billion). This was accompanied by a direct investment inflow of $105.7 billion and a reduction in short-term liabilities of deposit-money banks of $133.0 billion.

Developing Countries

The current account deficit of the developing countries increased to $81.0 billion in 1991 from $12.0 billion in 1990. This was largely attributable to a drop in the merchandise trade surplus to $11.7 billion from $57.0 billion. The merchandise trade surplus of the oil exporting countries fell as the result of a reduction in exports that was greater than the fall in imports. By contrast, the deficit of the non-oil developing countries increased, despite an increase in their exports.

In contrast to the merchandise trade surplus, the deficit in other goods, services, and income items remained persistently large, deteriorating by 46 percent in 1991 to $104.9 billion. Among the major components of this category, only the travel item showed a significant surplus, while labor income showed a small but increasing surplus. The net inflow of unrequited transfers into developing countries fell to $12.2 billion in 1991 from $31.2 billion in 1990, as private transfer receipts fell and official transfers almost doubled.

At the same time, long-term capital inflows increased sharply to $108.9 billion in 1991, from $21.6 billion in 1990, while the outflow of short-term capital increased slightly to $5.0 billion from $2.9 billion. Reliance on exceptional financing was reduced slightly to $40.4 billion in 1991, from $41.3 billion the previous year, and reserves increased by $64.2 billion in 1991 compared with $40.8 billion in 1990.

Overall, capital movements for developing countries, including changes in reserves, showed a net inflow of $79.2 billion in 1991 compared with an inflow of $18.8 billion in 1990. Capital outflows (representing net acquisition of financial assets abroad) fell to $91.5 billion in 1991, from $107.1 billion in 1990. The largest outflows were recorded for Asia ($66.1 billion) and the Western Hemisphere ($24.5 billion). Capital inflows (representing net incurrence of financial liabilities abroad) rose to $170.7 billion in 1991 from $125.9 billion in 1990. The largest inflows occurred in Asia ($69.8 billion), the Middle East ($38.6 billion), and the Western Hemisphere ($39.8 billion).

Balance of International Transactions

(billion U.S. dollars)

	Current Account		Long-Term Capital		Short-Term Capital		Net Errors & Omissions		Exceptional Financing		Liabilities Constituting Authorities' Reserves		Total Changes	
	1990	1991	1990	1991	1990	1991	1990	1991	1990	1991	1990	1991	1990	1991
Total	-112.5	-19.1	7.9	190.4	106.3	-73.8	26.3	-0.6	42.0	40.0	26.5	-6.8	-96.5	-58.1
Industrial countries	-108.2	-18.5	-12.0	90.0	110.7	-79.7	31.5	-3.4	0.7	-0.4	34.7	1.1	-57.3	10.9
Developing countries	-12.0	-81.0	21.6	108.9	-2.9	-5.0	-6.7	1.7	41.3	40.4	-0.4	-0.9	-40.8	-64.2
International organizations	7.7	8.4	-1.7	-8.5	-1.5	10.8	1.6	1.1	. . .	. . .	-7.8	-7.0	1.7	-4.8
MEMORANDUM ITEMS														
Oil exporting countries	10.0	-51.8	1.3	62.2	-7.1	—	-1.8	-7.7	2.9	2.5	-0.4	-0.1	-4.8	-5.2
Non-oil developing countries	-22.0	-29.2	20.4	46.7	4.2	-5.0	-4.9	9.4	38.4	37.9	—	-0.8	-36.0	-59.0

Note: A minus sign indicates a debit figure.

Data: IMF, *Balance of Payments Statistics Yearbook*, Vol. 43, Part 2 (1992)

International Organizations

According to the data compiled by the IMF, the current account surplus of international organizations increased slightly to $8.4 billion in 1991 from $7.7 billion in 1990. The improvement was due to an increase of $1.2 billion in the surplus on other investment income, offset by a decrease of $0.7 billion in the deficit on official services.

Capital account transactions of international organizations, including changes in reserves, recorded a net outflow of $9.4 billion in 1991, similar to the outflow of $9.3 billion in 1990.

Global Current Account Discrepancy

Whereas, conceptually, the surpluses and deficits on current account of all countries and international organizations should offset each other, leaving no global discrepancy, this does not happen in practice. Indeed, the global current account discrepancy showed a deficit of $91.1 billion in 1991, compared with a deficit of $112.5 billion in 1990. The discrepancy, which improved significantly in 1986 and 1987, worsened persistently over the next three years, reaching its highest recorded level in 1990. However, as a proportion of global current account payments, the discrepancy has shown a downward trend from -3.0 percent in 1985 to -2.1 percent in 1990 and -1.6 percent in 1991.

The global current account discrepancy is the result of incomplete coverage and inaccurate recording of transactions by countries, and the omission of countries for which data are not available. To make the balance of payments standard components more analytically useful, the *BOPSY* (Part 2) includes data that are adjusted for the global discrepancy. When these adjustments are taken into account, the global imbalance is reduced considerably. With a view to improving the coverage of transactions in the global data, the IMF's Statistics Department has also collected and incorporated data on the transactions of the major international and regional organizations.

The current account discrepancy is a composite of imbalances in the various components that partially offset each other. Among the major negative imbalances are "other investment income," followed by "shipment," "official unrequited transfers," and "other official goods, services, and income." In contrast, positive imbalances are recorded for "reinvested earnings on direct investment," "other private goods, services, and income," and "merchandise."

No attempt is made to adjust the global statistical discrepancy in the capital account. As a follow-up to the *Report on the World Current Account Discrepancy*, a Working Party on the Measurement of International Capital Flows was constituted in January 1990. A final report on its findings with recommendations for improvements in these data was published by the IMF in September 1992.

Yearbook Provides Balance of Payments Data for 1985–91

The 1992 *BOPSY* (Volume 43) contains data for 1985–91, current as of September 1, 1992. The *Yearbook* is divided into two parts. Part 1 contains data and explanatory notes by country. Each country section includes two tables that present annual data in both aggregated and detailed formats. Quarterly data (when available) are presented in aggregated form. Part 2 presents data for the world, international organizations, and principal regions, as well as for individual countries. World and regional totals include estimates for countries that do not report, or whose reports are not current. However, no estimates are included for the states of the former Soviet Union. Also included in Part 2 are adjustments for selected statistical discrepancies in the current account.

The price of the 1992 *Yearbook* is US$45.00. A special rate for university faculty members and students is available. Please write to Publication Services, Box S-361, International Monetary Fund, Washington. D.C., 20431, U.S.A.

From the Executive Board . . .

Guyana: Enhanced Structural Adjustment Facility. The IMF has approved a loan equivalent to SDR 17.72 million (about $25 million) for Guyana to support the third annual program under the enhanced structural adjustment facility (ESAF). The loan is available in two semi-annual installments, with the first disbursement, equivalent to SDR 8.86 million (about $12 million), available immediately. Guyana has received loans totaling SDR 63.8 million (about $90 million) under the first two annual ESAF arrangements from the total of SDR 81.52 million (about $115 million) approved by the IMF in July 1990.

Following the initiation of a comprehensive package of economic reforms in 1988, Guyana has made major progress toward restoring a basis for sustained growth within the context of an open, market-based economy. The decline in economic activity has been reversed, and real GDP is projected to increase by over 6 percent in 1992 for the second consecutive year. The rate of inflation has slowed markedly to an estimated 15 percent in 1992, and the exchange rate, which is determined freely in the cambio market, has remained stable for more than a year and a half. The country's international reserves have also strengthened substantially during 1992.

Notwithstanding the progress made to date, Guyana continues to face major structural problems, including serious

weaknesses in its basic infrastructure, critical shortages of skilled labor and management, and a very large external debt. The medium-term economic program for 1992–94 maintains the broad objectives of the original program and seeks to address the economic and structural problems still facing Guyana. The program envisages real GDP growth of 6 percent in 1993 and 5 percent in 1994, a reduction in the annual rate of inflation to 10 percent in 1993 and 8 percent in 1994, and maintenance of the current level of international reserves in relation to imports.

The program will continue to rely on market determination of the exchange rate, interest rates, and prices as the main guide to resource allocation. Fiscal policy will seek to achieve a further narrowing in the overall public sector deficit from 38.5 percent of GDP in 1992 to 36.5 percent of GDP in 1993 and 23 percent in 1994. This reduction is to be achieved through measures aimed at increasing the buoyancy of tax revenues, containing current expenditures, and improving the performance of the state enterprises. As part of its program of public sector reform, the Government intends to continue the privatization of state enterprises following a review of the privatization process to be conducted in early 1993. Public investment outlays will be expanded to address the infrastructural bottlenecks based on an increased availability of external financing. Financial sector policies will include measures to strengthen the regulatory framework and increase competition.

The program includes specific measures to address the declines in living standards and in the provision of social services that have occurred over the past decade. The social impact amelioration program (SIMAP), established originally in 1989, will continue to be the principal channel through which available resources will be directed at alleviating the burden of adjustment on the most vulnerable segments of the population. The Government intends to strengthen the institutional capacity of SIMAP and will seek further donor assistance to widen the scope of its activities. Bilateral and multilateral donors also have programs to address the pressing needs of the most disadvantaged sectors.

Guyana joined the IMF in September 1966, and its new quota in the IMF under the Ninth General Review of Quotas is SDR 67.2 million (about $94 million). Guyana's outstanding financial obligations to the IMF's General Resources Account and the ESAF Trust Fund currently total SDR 113.3 million (about $159 million).

Press Release No. 92/94, December 22

Argentina: Extended Arrangement. The IMF has approved a request by the Government of Argentina that the amount of its current extended arrangement be augmented by the equivalent of SDR 333.9 million (about $460 million) for interest support in connection with debt- and debt-service-reduction operations. The IMF has also approved Argentina's request that amounts set aside from drawings under the extended arrangement, totaling SDR 292.4 million (about $403 million), be released. The IMF authorized the disbursement of SDR 90.4 million (about $124 million) related to set-asides from drawings scheduled for March and June 1993. Argentina's use of IMF resources in support of its debt- and debt-service-reduction operations totals the equivalent of SDR 716.7 million (about $987 million). Finally, the IMF has also completed the December 1992 review under the extended arrangement with Argentina, and, accordingly, SDR 145.9 million (about $201 million) is available immediately.

In March 1992, the IMF approved a three-year extended arrangement for Argentina for SDR 2,149.3 million (about $2,961 million) and approved the country's request that amounts under the arrangement be set aside for debt-reduction operations with its commercial bank creditors, as part of the IMF's strengthened debt strategy. At the same time, the Argentine authorities stated their intention to request that the amount under the extended arrangement be augmented once agreement was reached on a debt-reduction package with commercial banks. (See Press Release No. 92/27, *IMF Survey*, April 13, 1992, page 122.)

The agreement, which Argentina and its bank creditors signed on December 6, 1992, covers an estimated total of $29.2 billion, including eligible bank claims of $20.9 billion and interest arrears of $8.3 billion. The net reduction in contractual claims implied by the agreement is estimated to be equivalent to a buyback at 38 cents on the dollar, and the reduction in debt-service obligations (principal and interest) will be about $980 million a year for the remainder of the decade. The agreement will help support Argentina's economic reform program by improving the prospects for external viability, access to international capital markets, and the climate for private investment.

Press Release No. 92/95, December 30

Successor to Czechoslovakia. Yesterday the Executive Board of the IMF considered the status of the Czech and Slovak Federal Republic (CSFR) in the IMF and found the CSFR will cease to exist, and therefore will cease to be a member of the IMF, as of January 1, 1993, subject to receipt by the IMF of confirmation of the dissolution of the CSFR from the Czech Republic and the Slovak Republic.

At the same time, the IMF decided that, upon cessation of membership of the CSFR in the IMF, the Czech Republic and the Slovak Republic shall be the successors to the assets and liabilities of the CSFR in the IMF. The IMF has determined the shares of the Czech Republic and the Slovak Republic as successors to the assets, liabilities, and quota of the

SDR Rates

Week Beginning	Rate of SDR Interest and Charges (percent)
January 18	5.52
January 25	5.47

The rate of SDR interest and charges is calculated weekly, by reference to a combined market interest rate, which is the weighted average of interest rates on specified short-term domestic obligations in the money markets of the five countries whose currencies constitute the SDR valuation basket (U.S. dollar, deutsche mark, Japanese yen, French franc, and pound sterling). The interest rates used are those that prevail each Friday. For the latest weekly rates call (202) 623-7171.

Data: IMF Treasurer's Department

CSFR in the IMF. These shares result from applying to the present quota of the CSFR the proportion of each successor state in the total of their calculated quotas. The quota calculations made for each successor state followed the IMF's standard methodology for calculating quotas and incorporated some data—those relating to reserves—that reflected the application of the ratio of 2:1, which is the ratio followed by the Czech and the Slovak authorities in dividing other assets and liabilities of the CSFR. On the basis of these calculations, the respective shares in the assets, liabilities, and quota in the IMF will be as follows:

Czech Republic	69.61 percent
Slovak Republic	30.39 percent

Each successor may succeed simultaneously to the membership of the CSFR in the IMF when the following terms and conditions have been met: it has notified the IMF, within one month, that it agrees to its share of the assets and liabilities of the CSFR in the IMF; it has notified the IMF that it agrees, in accordance with its law, to succeed to the membership of the CSFR in the IMF in accordance with all the terms and conditions specified by the IMF and has taken all the steps necessary to succeed to membership and carry out all of its obligations under the articles of agreement; and it has no overdue financial obligations to the IMF or in the SDR Department.

The quotas of the successors are:

(million SDRs):	
Czech Republic	589.6 million
Slovak Republic	257.4 million
Total	**847.0 million**

Succession to membership will be open for a period of six months, although this, and the period for consent to the allocation of assets and liabilities in the IMF, may be extended by the IMF.

Czechoslovakia was an original member of the IMF. It ceased to be a member on December 31, 1954, and rejoined as the CSFR on September 20, 1990. Its outstanding financial obligations to the IMF resulting from past operations and transactions currently total SDR 1,122 million (about $1,543 million).

Press Release No. 92/96, December 31

IMF: General Arrangements to Borrow. The IMF has renewed the General Arrangements to Borrow (GAB) for a further period of five years from December 26, 1993 to December 25, 1998. The GAB entered into force on October 24, 1962 when ten industrial members—subsequently joined by Switzerland as an associate—undertook to lend to the IMF if this should be needed to forestall or cope with an impairment of the international monetary system. The GAB was extended several times, and, on December 26, 1983, the GAB participants and the IMF, primarily in response to emerging strains in the international financial system, agreed to a revision and an enlargement of the GAB to the present total of SDR 17 billion (about $23.4 billion) from about SDR 6.4 billion (about $8.8 billion), thus strengthening the IMF's capacity to respond to developments that would impair the international monetary system.

The IMF has also amended the GAB in the light of Switzerland's membership in the IMF. The Swiss National Bank (SNB) became a full participant in the GAB in 1983 in accordance with special provisions that were needed because Switzerland was not then a member of the IMF. Following Switzerland's membership in the IMF on May 29, 1992, the same provisions applying to other participants now apply to the SNB. Therefore, the IMF has abrogated the special provisions of the GAB that applied to the SNB.

The participants in the GAB and the amount of credit arrangements are:

(million SDRs)	
Participant	Amount
United States	4,250.0
Deutsche Bundesbank	2,380.0
Japan	2,125.0
France	1,700.0
United Kingdom	1,700.0
Italy	1,105.0
Canada	892.5
Netherlands	850.0
Belgium	595.0
Sveriges Riksbank	382.5
Swiss National Bank	1,020.0
Total	**17,000.0**

Press Release No. 93/1, January 5

New IMF Members: Republics of Croatia and Slovenia. On January 15, 1993, the Executive Board of the IMF determined that the Republic of Croatia and the Republic of Slovenia have fulfilled the necessary conditions to succeed to the membership of the former Socialist Federal Republic of Yugoslavia (SFRY) in the IMF. On December 14, 1992, the IMF determined that the SFRY had ceased to exist, and therefore ceased to be a member of the IMF. At the same time, the IMF decided that the Republic of Bosnia and Herzegovina, the Republic of Croatia, the former Yugoslav Republic of Macedonia, the Republic of Slovenia, and the Federal Republic of Yugoslavia (Serbia/Montenegro) are the successors to the assets and liabilities of the SFRY in the IMF and, subject to specified conditions, may succeed to its membership in the IMF. (See Press Release No. 92/92, *IMF Survey*, January 11 1993, page 8.)

The Republic of Croatia's quota in the IMF is SDR 180.1 million (about $247 million). The quota may be increased to SDR 261.6 million (about $359 million) under the Ninth General Review of Quotas on payment of a subscription equivalent to SDR 81.5 million (about $112 million), of which 25 percent is payable in SDRs or currencies acceptable to the IMF.

The Republic of Slovenia's quota in the IMF is SDR 99 million (about $136 million). The quota may be increased to SDR 150.5 million (about $206 million) under the Ninth General Review of Quotas on payment of a subscription equivalent to SDR 51.5 million (about $70 million), of which 25 percent is payable in SDRs or currencies acceptable to the IMF.

With the succession of the republics of Croatia and Slovenia, effective December 14, 1992, IMF membership now totals 175 countries.

Press Release No. 93/2, January 19

IMF: Director of Office in Europe Appointed. Michel Camdessus, the Managing Director of the IMF, has appointed Joaquín Ferrán, a national of Spain, as Director of the IMF's Office in Europe. Mr. Ferrán, born in 1934, was educated at the University of Madrid and at the American University, Washington, D.C.

After a short period as an economist at the Organization of American States

(OAS), Mr. Ferrán joined the IMF in 1963 as an Economist in the Western Hemisphere Department. He was subsequently appointed a Division Chief in 1971, Assistant Director in 1978, Senior Advisor in 1983, and, in 1987, Deputy Director of the Department. In 1991 Mr. Ferrán was appointed Deputy Director of the Policy Development and Review Department.

The IMF's Office in Europe is situated in Paris and serves as a liaison office for the IMF in Europe by maintaining close contact with European monetary authorities and with international and regional institutions, such as the Organization for Economic Cooperation and Development (OECD), the Bank for International Settlements (BIS), the Commission of the European Communities (EC), and the Group of 10.

Mr. Ferrán succeeds Andrew Beith, a national of the United Kingdom, who is now Acting Director of the Joint Vienna Institute.

Press Release No. 93/3, January 19

IMF: Re-Distribution of Country Assignments. Michel Camdessus, the Managing Director of the IMF, announced that, in order to bring about a better distribution of the workload among the area departments of the IMF, he has approved the internal transfers of the primary departmental responsibility for seven countries. Under these organizational changes, Algeria, Djibouti, Mauritania, Morocco, Somalia, and Tunisia will be transferred to the Middle Eastern Department from the African Department; and South Africa will be transferred to the African Department from the European I Department.

To permit an orderly transition between departments, the actual transfer of these countries, as well as any corresponding staff assignments, will be undertaken over the course of several months and will be completed by the end of the IMF's current fiscal year on April 30, 1993.

The primary functions of the IMF's

Currency Units per SDR

Currency	DECEMBER 11	14	15	16	17	18	21	22	23	24
Deutsche mark	2.19287	2.19124	2.18904	2.17859	2.17009	2.18646	2.1882	2.20871	2.20533	...
French franc	7.50214	7.45876	7.47344	7.44499	7.43214	7.47118	7.4678	7.49479	7.52424	7.5202
Japanese yen	171.791	172.538	172.405	173.209	172.953	171.799	172.124	171.	...	171.348
Pound sterling	0.89627	0.891312	0.8907	0.888326	0.886961	0.889927	0.891086	0.890240	0.903569	0.903581
U.S. dollar	1.38877	1.39312	1.39261	1.39707	1.40441	1.39674	1.39698	1.38934	1.38617	1.38619
Argentine peso	1.37558	1.37989	1.37938	1.3838	1.39107	...	...	...	...	...
Australian dollar	2.013	2.02138	2.02503	2.02621	2.0342	2.02162	2.01948	2.0083	2.01187	2.00723
Austrian schilling	15.4403	15.433	15.3967	15.3217	15.2926	15.3795	15.3767	15.4703	...	...
Bahrain dinar	0.522178	0.523813	0.523621	0.525298	0.528058	0.525174	0.524988	0.522302	0.520824	0.520831
Bangladesh taka	54.162	54.3317	54.3118	54.4857	54.772	54.4729	54.4432	54.1843	54.0216	54.0224
Belgian franc	45.1559	45.185	45.0475	44.8005	44.7937	44.9865	44.9331	45.2126	45.2480	45.3339
Brazilian cruzeiro	14928	15121.2	15263	15461.2	15691.4	15759.0	15905	15984.9	16086.9	16256.5
Canadian dollar	1.77276	1.77525	1.77836	1.78601	1.7885	1.7814	1.7694	1.7521	1.74648	1.747
Colombian peso	1120.42	1124.48	1124.64	1128.75	1135.47	1129.92	...	1125.2	1122.58	1121.12
Danish krone	8.53955	8.4848	8.42599	8.39709	8.41663	8.44030	8.43312	8.49373	8.48109	...
Finnish markka	7.10772	7.09795	7.10231	7.13204	7.1653	7.2383	7.10836	7.16899	7.22366	...
Greek drachma	289.975	290.361	289.454	289.012	289.569	290.871	291.034	291.734	291.994	291.721
Indian rupee	36.3858	36.4997	36.4864	36.6032	36.7955	36.5946	36.5747	36.4207	36.2915	36.292
Indonesian rupiah	2859.48	2869.83	2868.78	2877.96	2893.08	2875.89	2875.72	2862.04	2856.22	2856.26
Iranian rial	92.3	92.3	92.3	92.3	92.3	92.3	92.3	92.3	92.3	92.3
Iraqi dinar	0.431709	0.433062	0.432903	0.434289	0.436571	0.434187	0.433961	0.431888	0.43059	0.430986
Irish pound	0.836608	0.828548	0.829083	0.825448	0.823894	0.827386	...	0.8302	0.834289	0.834301
Italian lira	1946.99	1944.56	1958.91	1964.06	1982.34	1980.27	1985.62	1971.58	1976.53	...
Korean won	1096.88	1100.84	1101.55	1104.38	1108.5	...	1101.15	1099.83	1095.12	1093.47
Kuwaiti dinar	...	0.417592	0.417839	0.419177	0.420775	...	0.418643	0.416897	0.417227	0.417233
Libyan dinar	0.414286	0.414286	0.414286	0.414286	0.414286	0.414286	0.414286	0.414286	0.414286	0.414286
Malaysian ringgit	3.53123	3.55246	3.60268	3.60863	3.62098	3.60429	3.60875	3.59580	3.5960	3.60149
Maltese lira	0.508744	0.507882	0.507751	...	0.508982	0.50781	0.508091	0.507818	0.511624	...
Nepalese rupee	59.9949	60.1828	60.7888	60.3534	60.6705	60.3382	60.3063	60.0195	59.8353	59.8402
Netherlands guilder	2.46951	2.46164	2.46005	2.45018	2.4655	2.45784	2.46776	2.47205	2.49056	2.48004
New Zealand dollar	2.68465	2.69202	2.69781	...	2.70443	2.69486	2.69702	2.69109	2.68965	...
Norwegian krone	9.52835	9.50177	9.44329	9.37224	9.3625	9.41612	9.39634	9.41834	9.41223	9.37081
Omani rial	0.533982	0.535655	0.535459	0.537173	0.539898	0.537047	0.536754	0.534201	0.532598	0.532606
Pakistan rupee	35.8693	35.781	35.7679	35.8825	36.071	35.874	35.8645	35.8838	35.5788	35.6191
Portuguese escudo	197.06	196.245	195.706	194.501	194.592	196.503	196.824	196.503	196.674	...
Qatar riyal	5.05512	5.07096	5.0691	5.08533	5.11205	5.08413	5.08137	5.0572	5.04202	5.04209
Saudi Arabian riyal	5.20094	5.21723	5.21532	5.23203	5.25552	5.23079	5.22795	5.20308	5.18748	5.18754
Singapore dollar	2.27536	2.28263	2.28499	2.29092	2.30113	2.28864	2.28989	2.27296	2.27029	2.27019
South African rand	4.18506	4.1919	4.19454	...	4.2034	4.1972	4.19422	4.18747	4.1946	4.1912
Spanish peseta	156.898	156.165	155.777	155.259	156.038	156.514	156.491	156.313	156.084	...
Sri Lanka rupee	62.1475	62.37	62.3471	62.5808	62.9176	62.6019	62.8191	62.8864	63.1639	63.3724
Swedish krona	...	9.43839	9.44886	...	9.62372	...	9.67594	9.68703	9.73092	...
Swiss franc	1.95817	1.965	1.96497	1.9559	1.94851	1.96861	1.97162	1.96328	1.99187	1.99329
Thai baht	35.3581	35.4688	35.4559	35.5694	35.7141	35.5191	35.5137	35.3448	35.2941	35.3985
Trinidad and Tobago dollar	5.91703	5.93556	5.93339	5.95239	5.98360	5.96099	5.94775	5.91948	5.90169	5.90179
U.A.E. dirham	5.09817	5.11414	5.11227	5.12864	5.15999	5.12743	5.12464	5.10027	5.08836	5.08803
Venezuelan bolivar	109.227	109.569	109.668	110.088	110.78	110.273	110.394	109.869	109.567	109.638

Notes: 1. The value of U.S. dollar in terms of the SDR is the reciprocal of the sum of the dollar values, based on market exchange rates, of specified quantities of the first five currencies shown. The exchange rates used for this purpose are noon rates in the London foreign exchange market. When the London market is closed, noon rates in the New York market are used. Frankfurt fixing rates are used when the New York market is closed. 2. The value in terms of the SDR of each of the other currencies shown above is derived from that currency's representative exchange rate against the U.S. dollar as reported by the issuing central bank and the SDR value of the U.S. dollar, except for the Iranian rial and the Libyan dinar, the values of which are officially expressed directly in terms of the domestic currency units per SDR.

Data: IMF Treasurer's Department

seven area departments—African, Central Asia, European I, European II, Middle Eastern, Southeast Asia and Pacific, and Western Hemisphere—are to advise the IMF's management and Executive Board on matters concerning the economies and economic policies of the member countries in their area, to assist in the formulation of IMF policies in relation to their countries, and to carry out such policies. The area departments, with the help of other departments in the IMF, provide members with economic advice, assist them in the design of economic programs supported by IMF financing, identify technical assistance needs and ensure effective delivery, monitor regional developments and initiatives, and maintain contact with regional organizations in their particular areas.

News Brief No. 93/1, January 7

Czech and Slovak Republics Succeed to the Membership of Czechoslovakia. The Czech Republic and the Slovak Republic are the successors to the membership of the Czech and Slovak Federal Republic (CSFR) in the IMF. On December 30, 1992, the IMF determined that, as of January 1, 1993, because the CSFR would cease to exist, it would no longer be a member of the IMF, and decided that the Czech Republic and the Slovak Republic would be the successors to the assets, liabilities, and quota of the CSFR in the IMF. (See IMF Press Release No. 92/96.)

The quota of the Czech Republic is SDR 589.6 million (about $810.5 million) and the quota of the Slovak Republic is 257.4 million (about $354 million). The Czech Republic and the Slovak Republic will be represented on the Executive Board of the IMF by Jacques de Groote of Belgium.

Membership in the IMF now totals 173 countries.

News Brief No. 93/2, January 19

Currency Units per SDR

DECEMBER				JANUARY						
28	29	30	31	4	5	6	7	8	11	Currency
2.20551	2.22617	2.22219	...	2.23679	2.24141	2.23908	2.24353	2.25318	2.24351	Deutsche mark
7.51283	7.58235	7.58077	7.57144	7.65584	7.63373	7.64282	7.6497	7.67423	7.62205	French franc
170.889	171.376	171.216	171.531	170.928	171.274	171.45	171.708	171.549	172.055	Japanese yen
...	0.911127	0.909573	0.909392	0.910407	0.904707	0.890053	0.891056	0.89704	0.886693	Pound sterling
1.37758	1.37488	1.37662	1.375	1.38607	1.38056	1.37325	1.37202	1.38664	1.3726	U.S. dollar
...	...	...	...	...	...	...	...	...	...	Argentine peso
...	1.99602	1.99845	...	1.9934	2.01613	2.04201	2.04383	2.03581	2.04194	Australian dollar
15.5157	15.6893	...	15.6118	15.7402	15.7808	...	15.7823	15.8407	15.8	Austrian schilling
0.51797	0.516947	0.517084	0.517	0.51477	0.514575	0.516342	0.51588	0.518857	0.516098	Bahrain dinar
53.7256	53.6195	53.696	53.625	53.3837	53.3735	53.5568	53.5088	53.299	53.5314	Bangladesh taka
45.3224	45.7244	45.6313	45.6225	46.0042	46.0722	46.0883	46.1513	46.2608	46.1846	Belgian franc
163315	164674	164687	164532	166958.7	171497	174008	175955	177302	180146	Brazilian cruzeiro
...	1.74044	1.74622	1.74776	1.74867	1.74885	1.75501	1.75509	1.75176	1.75081	Canadian dollar
1117.09	1115.6	1117.66	...	1112.01	1112.28	1116.67	1116.39	1112.54	...	Colombian peso
8.49629	8.59356	8.59791	8.60131	8.68333	8.69029	8.67688	8.67528	8.71028	8.68644	Danish krone
7.22541	7.25239	7.18975	7.21188	7.31083	7.30964	...	7.45693	7.51652	7.48753	Finnish markka
292.088	294.825	295.479	295.048	297.704	298.85	...	299.512	300.592	300.009	Greek drachma
36.0526	36.0213	36.0727	...	35.8606	35.856	35.9792	35.9469	35.806	35.9521	Indian rupee
2840.57	2836.34	2839	2835.25	2824.39	2824.69	2833.01	2831.85	2820.74	2834.42	Indonesian rupiah
92.3	92.3	92.3	92.3	92.3	92.3	92.3	92.3	92.3	92.3	Iranian rial
0.426231	0.427385	0.427985	0.427429	0.425685	0.425424	0.426885	0.426502	0.42483	0.426683	Iraqi dinar
...	...	0.944623	0.943869	0.952313	0.95093	0.953746	0.955534	0.956828	0.948961	Irish pound
1978.38	2031.84	2035.11	...	2070.48	2088.74	...	2093.83	2077.54	2053.35	Italian lira
1697.19	1686.73	1688.72	...	1676.91	1678.69	1686.28	1685.41	1682.24	...	Korean won
0.415988	0.416486	0.416763	0.416213	0.415529	0.416012	0.416836	0.417402	...	0.417668	Kuwaiti dinar
0.414286	0.414286	0.414286	0.414286	0.414286	0.414286	0.414286	0.414286	0.414286	0.414286	Libyan dinar
3.58628	3.58673	3.58763	3.58394	3.57053	3.55481	...	3.58763	3.54684	3.56352	Malaysian ringgit
0.512035	0.501243	0.514276	...	0.516007	0.517019	0.513384	0.514347	0.514335	...	Maltese lira
59.5115	...	59.4786	59.4	59.1438	59.1214	59.3244	59.2713	59.0389	59.2983	Nepalese rupee
2.47896	2.5039	2.49975	2.49439	2.51886	2.51649	2.51991	2.52493	2.52579	2.51954	Netherlands guilder
...	2.67899	2.67708	...	...	2.68133	...	2.69817	2.68021	2.68663	New Zealand dollar
9.38821	9.44323	9.4073	9.52119	9.5898	9.59696	9.56743	9.59729	9.66418	9.59447	Norwegian krone
0.529981	0.528634	0.529387	0.529998	0.526407	0.526207	0.526015	0.527542	0.525473	0.527765	Omani rial
35.4234	35.4223	35.4728	35.4256	35.3829	35.4381	35.5874	35.5555	35.4161	35.6383	Pakistan rupee
199.091	201.252	200.767	201.752	201.808	202.393	201.597	201.954	202.244	201.307	Portuguese escudo
5.01439	5.00449	5.01162	5.005	4.98041	4.98152	4.99863	4.99415	4.97457	4.99626	Qatari rial
5.15904	5.14885	5.15619	5.14038	5.12717	5.12522	5.14282	5.14021	5.11807	5.14039	Saudi Arabian riyal
2.25806	2.25917	2.2585	2.26174	2.25089	2.25885	2.27177	2.27384	2.27294	2.2781	Singapore dollar
4.17682	4.21188	4.20412	4.19788	4.20847	4.19529	4.20832	4.20867	4.22223	4.20976	South African rand
156.303	158.018	157.815	...	159.332	159.561	...	159.515	159.674	159.296	Spanish peseta
63.2388	63.4498	63.3337	63.25	62.9772	63.2954	63.4442	63.4559	...	63.62	Sri Lanka rupee
9.77806	9.78151	9.69694	...	9.77311	9.95278	...	9.95469	10.1314	10.1469	Swedish krona
1.99542	2.01761	2.00782	2.002	2.01801	2.03083	2.03104	2.04637	2.0598	2.04829	Swiss franc
35.1283	35.1139	35.1364	...	34.986	34.9801	35.0501	35.0551	34.9313	35.0837	Thai baht
5.88835	5.85776	5.88611	5.85839	5.83309	5.83088	5.8599	5.84586	5.82274	5.84813	Trinidad and Tobago dollar
5.0571	5.04711	5.05431	5.04763	5.02588	5.02395	5.0412	5.03869	5.01694	5.03881	U.A.E. dirham
109.173	108.958	109.32	109.244	108.961	108.937	109.448	109.487	109.236	...	Venezuelan bolivar

Notes: 1. The value of U.S. dollar in terms of the SDR is the reciprocal of the sum of the dollar values, based on market exchange rates, of specified quantities of the first five currencies shown. The exchange rates used for this purpose are noon rates in the London foreign exchange market. When the London market is closed, noon rates in the New York market are used. Frankfurt fixing rates are used when the New York market is closed. 2. The value in terms of the SDR of each of the other currencies shown above is derived from that currency's representative exchange rate against the U.S. dollar as reported by the issuing central bank and the SDR value of the U.S. dollar, except for the Iranian rial and the Libyan dinar, the values of which are officially expressed directly in terms of the domestic currency units per SDR.

Data: IMF Treasurer's Department

NATIONAL ECONOMIES

The Dominican Republic's Economic Stabilization Program, 1990–92

From 1968 to 1974, real GDP growth in the Dominican Republic was among the highest in the Western Hemisphere at 11 percent a year, on average. This figure reflected the strength of sugar, gold, and ferronickel exports and import substitution in the manufacturing sector. In the second half of the 1970s, however, and following the increase in international oil prices, the surge in international interest rates, and the sharp decline in export prices, real GDP growth slowed to an annual average of 4 percent.

In the early 1980s, severe external imbalances appeared. Inflation accelerated and economic activity declined further as a result of not only adverse external developments but also deficiencies in economic policies. In 1984, the authorities adopted an adjustment program that was supported by a one-year stand-by arrangement from the IMF and a rescheduling of the Dominican Republic's external debt. The economic program met with satisfactory results as inflation declined, the external current account deficit narrowed, and the growth of real GDP resumed.

In 1986, the authorities adopted policies aimed at raising economic growth and reducing unemployment. The new strategy was centered on a major public investment program, and it helped restore real GDP growth to an average of 4 percent during 1987–89. However, the public sector deficit widened over this period, owing partly to the Central Bank's quasi-fiscal deficit (which reflected exchange rate subsidies for certain import payments and for servicing the external debt). The consolidated public sector deficit averaged about 6 percent of GDP during 1987–89 compared with an average of 4.5 percent during 1985–86. The domestic financing of the deficit, combined with an acceleration in the expansion of credit to the private sector—which reflected in part negative real interest rates (nominal interest rates were subject to direct control)—gave rise to pressures on prices and the balance of payments. In these circumstances, the Dominican Republic suspended certain external debt-service payments and incurred considerable external arrears. As the country's economic performance deteriorated further in early 1990, it became clear that the policies of the previous years could no longer be sustained. In the following article, Carlos Medeiros, an economist in the IMF's Western Hemisphere Department, discusses recent developments in the Dominican Republic's economy and future challenges.

Economic Stabilization Program, 1990–92

Although the Dominican peso was devalued in April 1990 and the pace of public investment was slowed in the first half of 1990, these measures proved insufficient. In August, the authorities embarked upon a broader program to reduce inflation, raise savings, strengthen the balance of payments, and thus create the conditions for sustained economic growth. The program was centered on improving the public finances and was to be supported by appropriate monetary, price, wage, and exchange rate policies. The program also called for the re-establishment of relations with external creditors.

Initial Phase. In the second half of 1990, the authorities sharply increased the price of goods and services provided by the Government. They brought the prices of domestic petroleum products to international levels, doubled electricity prices, and raised the prices of sugar and flour markedly. Furthermore, they introduced a major customs reform in August that eliminated most exemptions from import duties, simplified the structure of import duties, and lowered duty rates to a range of 5 percent to 35 percent (the previous maximum rate was 600 percent) to be applied on an ad valorem basis. The customs reform also introduced selected excise taxes ranging from 15 percent to 80 percent on imported luxury goods and eliminated quantitative restrictions on imports, although licensing requirements on imports of certain agricultural commodities were retained. At the same time, interest rate ceilings were raised (but interest rates remained negative in real terms), marginal reserve requirements on deposits were introduced as a temporary measure, and controls were tightened on bank reserve deficiencies. The peso was devalued again in the latter part of 1990.

The overall deficit of the public sector declined by nearly 1 percentage point to 5 percent of GDP in 1990, reflecting mainly the curtailment of public investment (some of which had been of low quality) and the strengthening of the financial position of public enterprises following the price ad-

justments noted above. The corrective price increases contributed to a sharp increase in the 12-month rate of price increases to 103 percent at the end of 1990 from 40 percent at the end of the previous year.

Economic activity continued to decline in the second half of 1990 owing in part to inadequate electricity supplies (blackouts lasted up to 20 hours in some areas) and shortages of petroleum derivatives, and real GDP fell by more than 5 percent for the year. The external current account deficit narrowed as a decline in merchandise exports (owing mainly to a fall in ferronickel prices) was more than offset by a sizable drop in imports together with a further gain in tourist receipts. However, the capital account worsened as external creditors reduced loan disbursements because of the Dominican Republic's payment record. Net international reserves dropped by the equivalent of more than 6.2 percent of GDP in 1990, reflecting mainly a further accumulation of external arrears, including to the IMF.

Irrigation systems: Farmers in the San Juan Valley can double crop production by planting two crops per year using water from the Sabaneta Dam.

Intensifying the Effort. The authorities sought to strengthen the program in 1991. In January, all interest rates were liberalized, and, later in the year, portfolio requirements on commercial banks were eliminated and their reserve requirements were unified at 20 percent for all deposits. Also in January, the exchange rate was adjusted again (for a cumulative depreciation of 50 percent against the U.S. dollar since March 1990), and a new exchange rate system was introduced, whereby the foreign exchange market was segmented—with a fixed official rate applying to exports and key imports, such as petroleum, medicines, and basic food items—and a freely floating rate in an interbank market applying to all other transactions. In July, the exchange rate was effectively unified again, with the official rate now being set at the rate prevailing in the interbank market. Since then, the exchange rate of the peso against the U.S. dollar has generally been stable.

In January 1991, the authorities introduced temporary fiscal measures, including a tax of 2½ percent on the sale of foreign exchange to cover part of the quasi-fiscal deficit of the Central Bank. (This tax was reduced to 2 percent in December 1991.) The authorities also decided to maintain unchanged the domestic price of petroleum derivatives when international oil prices started to decline. (This "oil price differential" would become an important source of revenues during 1991–92.) In July 1991, the base of the 15 percent surcharge on imports was extended from about one half of total imports to all items except petroleum and derivatives, medicines, and certain food items.

With a view to strengthening the tax system, the Dominican Congress enacted a comprehensive tax reform in May 1992 that significantly modified the income tax, the value-added tax, and the excise tax. It simplified both personal and corporate income taxes by raising substantially the minimum income subject to the personal income tax and establishing three rates for the personal income tax and one for the corporate income tax. The new tax legislation lowered the maximum personal income tax rate from 70 percent to 30 percent and the corporate income tax rate from 45 percent to 30 percent. Moreover, a schedule was established to further reduce the maximum personal income tax and the corporate income tax rates to 25 percent over four years. To lessen distortions, the legislation prohibited the granting of new exemptions and established standard definitions, including for inventory valuation and depreciation. Under the new tax law, the value-added tax was raised to 8 percent from 6 percent, and all excise taxes were converted from specific to ad valorem. The new law on excise taxes, which superseded some fifty individual tax laws, replaced more than one hundred rates with a single rate of 10 percent for domestically produced goods and seven rates, ranging from 5 percent to 80 percent, for imported goods. In addition, the new tax legislation reduced the surcharge on imports to 10 percent from 15 percent and established a schedule

to eliminate the surcharge after three years.

Minimum wages, which had fallen substantially in real terms before 1991, were increased by an average of 30 percent in the middle of that year, with public sector wages by somewhat less. In May 1992, the remaining price controls were eliminated (although the incidence of price controls already had been reduced in previous years). In mid-1992, the Congress enacted a new labor code which increased flexibility in the labor market by establishing clear procedures for resolving disputes between employees and employers. It also strengthened the rights of employees with regard to union activities, leave policy (including during pregnancy), overtime work, and dismissal.

To support the Government's economic program, and after arrears to the multilateral institutions had been cleared, in August 1991 the IMF approved a 19-month stand-by arrangement in an amount equivalent to SDR 39.3 million. It also approved a purchase under the compensatory and contingency financing facility equivalent to SDR 44.8 million related to a shortfall in exports and an increase in the cost of oil imports.

Outcome. Economic performance improved markedly in 1991–92. Following the sharp decline of 1990, real GDP remained virtually unchanged in 1991 and recovered strongly in 1992, when it grew by an estimated 6 percent. Inflation fell to 4 percent in 1991 and is estimated to have been about 6 percent in 1992, partly as a result of the increase in the value-added tax. Capital formation rose to 19.5 percent of GDP in 1992, an increase of 3.0 percentage points from 1990, on the strength of increases in private investment (particularly in the tourism sector) and public investment. National savings increased by over 1.5

Dominican Republic: Macroeconomic Flows

(percent of GDP)

	1987	1988	1989	1990	1991 prel.	1992 Est.
I. Balance of Payments						
Current account balance	-6.6	-2.3	-4.5	-2.9	-2.5	-4.3
Of which:						
Exports	14.0	19.1	13.8	10.3	9.0	7.1
Imports	-31.3	-34.6	-29.3	-25.0	-23.6	-25.2
Tourist receipts	11.2	15.2	12.2	12.6	12.0	13.7
Interest payments	-5.0	-6.0	-4.4	-4.3	-4.0	-3.4
Capital account	0.5	1.2	-1.2	-3.3	16.8	12.5
Private	2.2	2.3	-2.0	—	5.3	4.5
Official	-1.7	-1.1	0.8	-3.3	11.5	8.0
Change in net international reserves[1]	-6.1	-1.1	-5.7	-6.2	14.3	8.2
II. Aggregate Expenditure, Savings, and Investment						
Aggregate domestic expenditure	107.7	103.0	105.2	103.2	103.1	105.4
Consumption	82.5	80.2	85.1	87.0	86.3	86.0
Capital formation	25.2	22.8	20.2	16.2	16.8	19.4
Private sector[2]	14.0	10.8	8.9	9.7	10.6	11.4
Public sector	11.2	11.9	11.3	6.6	6.2	8.0
National savings	18.6	20.5	15.7	13.3	14.3	15.0
Public sector	6.4	5.1	5.4	1.5	6.3	9.4
Private sector	12.2	15.4	10.3	11.8	8.0	5.6
External savings	6.6	2.3	4.5	2.9	2.5	4.3
III. Public Sector						
Current account balance[3]	6.4	9.0	6.1	3.2	6.7	9.2
Capital expenditure	11.2	11.9	11.3	6.6	6.2	8.0
Primary balance	...	-4.6	-1.9	-1.0	4.0	4.6
Overall balance (accrual basis)	-4.9	-6.9	-5.9	-5.0	0.1	1.5
IV. Financial System Flows						
Liabilities to private sector	8.7	14.8	10.3	8.1	8.6	4.2
Net domestic credit	12.0	12.4	13.9	10.7	2.1	1.5
Public sector (net)	3.0	4.8	1.8	1.0	-2.6	-1.6
Private sector	7.7	6.4	9.0	5.8	3.9	4.0
Net foreign assets	-3.6	2.9	-1.6	-0.8	5.2	0.2
Other liabilities	-0.3	0.6	2.0	1.9	-1.3	-2.5
Velocity (GDP/money and quasi-money)[4]	3.0	3.0	3.3	3.8	3.6	3.3
	(percent change over previous year)					
MEMORANDUM ITEMS						
GDP (real)	7.9	0.7	4.1	-5.4	-0.6	6.0
Consumer prices (year average)	15.9	44.4	45.4	59.4	53.9	4.6
Consumer prices (end of year)	25.0	57.6	41.2	100.7	4.0	6.2
Terms of trade	-5.5	54.8	4.6	-16.8	-3.8	-6.1
Real effective exchange rate						
Average[5]	-16.5	-16.4	24.8	3.3	6.7	—
End of period	...	22.2	16.2	13.7	-7.1	—
	(million Dominican pesos)					
GDP	19,536	28,353	42,393	60,355	91,023	98,717

[1]Includes changes in external payments arrears.
[2]Includes changes in inventories.
[3]Of the consolidated public sector.
[4]GDP is the average for two consecutive years.
[5]A negative sign denotes a depreciation.

Data: Dominican authorities; and IMF staff estimates

percentage points of GDP from 1990, to 15.0 percent in 1992, based on a recovery in public saving.

Public finances recorded a sharp improvement in 1991–92 as the overall balance of the public sector shifted from a deficit of 5 percent of GDP in 1990 to a surplus of 0.1 percent of GDP in 1991 and an estimated surplus of 1.5 percent of GDP in 1992. This improvement reflected mainly the increase in revenue that resulted from the corrective price adjustments introduced in the last half of 1990 (the oil price differential yielded net revenue equivalent to about 2 percent of GDP in 1991 and 1992) and the effects of tax measures implemented. The favorable revenue performance allowed for greater-than-budgeted expenditures, a large proportion of which were directed to health, education, and public investment projects. Nonetheless, the public sector reduced its net domestic indebtedness by 2.6 percent of GDP in 1991 and by an estimated 1.6 percent of GDP in 1992.

Monetary developments in 1991–92 were influenced by the reduction in the public sector's indebtedness to the banking system and the strong growth of private claims on the banking system. As a result—and notwithstanding the release of the commercial banks' excess reserves that had been frozen in December 1991—the net domestic assets of the Central Bank contracted in both years. Total claims on the financial system (money and quasi-money) are estimated to have continued growing in 1992, albeit at a slower pace than in 1991, reflecting positive real interest rates (when measured by current rates of inflation) and the stabilization of the exchange rate. Interest rates declined in early 1992 but rose subsequently as the growth of credit to the private sector accelerated.

Dominican ceramics factory: Price control ended in 1992.

After declining in 1991, the external current account deficit widened again in 1992, reflecting the strong growth of merchandise imports and a drop in merchandise exports as the prices and/or volumes of most mineral and agricultural exports declined. (The terms of trade declined by almost 10 percent during 1991–92.) The exchange rate showed little change in real effective terms over this period. Mitigating somewhat the effect of the deterioration of the trade balance on the external current account, tourist receipts recovered strongly in 1992 following the decline in 1991 that resulted from the conflict in the Middle East. A turnaround in the capital account, in particular, sizable private capital inflows (including direct investment) and the restructuring of existing public obligations, more than financed the current account deficits and resulted in an improvement in the net international reserve position.

The domestic adjustment effort was accompanied by initiatives to normalize relations with external creditors. After clearing its arrears to multilateral lenders (as previously noted), the Dominican Republic reached agreement with Paris Club creditors in November 1991 on a comprehensive debt-restructuring operation, settled debts with the most important bilateral creditors outside the Paris Club, and made progress in clearing arrears with all remaining official bilateral creditors. Discussions have been held with commercial banks on a debt-reduction package.

Future Challenges

The Dominican authorities have achieved many of their objectives under the economic program; in some areas the performance has been even stronger than expected. Inflation has been reduced markedly; economic activity has recovered; and the international reserve position has been strengthened. However, significant challenges lie ahead. The Dominican economy remains vulnerable to external shocks, the structure of public finances needs to be strengthened further, and interest rates remain high in real terms. The authorities have indicated that they intend to maintain a prudent macroeconomic policy stance and that they are prepared to adapt policies to changes in circumstances and to introduce further structural measures to complement those adopted since 1990.

Although the introduction of realistic public pricing policies and the customs and tax reforms have gone a long way toward correcting earlier shortcomings of the fiscal revenue system, the authorities recognize the distortionary effects of some taxes. In this light, they have established a schedule for the elimination of the import surcharge to maintain the momentum of trade liberalization. They are also seeking to strengthen the structural reforms under way in the public enterprises, including through privatization and increased participation of the private sector in joint ventures.

For 1993, the authorities have elaborated a monetary and financial reform aimed at addressing long-standing weaknesses and inefficiencies in the financial system. The proposed reform defines a strategy to strengthen financial institutions, including through mergers, and aims to improve the supervision of financial institutions. In addition, the reform seeks to strengthen the independence of the monetary authorities, a move that could help to prevent the recurrence of the imbalances that developed in the last half of the 1980s.

The Dominican Republic: A Profile

The Dominican Republic, which shares the island of Hispaniola with Haiti, has an area of 48,442 sq. km. and a population of 7.3 million. It is a low-middle-income country, with its annual per capita income estimated at US$1,080 in 1992.

The Dominican Republic's productive base is highly diversified. It enjoys favorable conditions for such agricultural products as sugar, coffee, cocoa, tobacco, tropical fruits, vegetables, and beef, and has a rich endowment of mineral deposits, principally ferronickel, gold, and silver. The tourism sector has taken on added importance in the last few years; as of mid-1992, 23,000 hotel rooms were available, with an additional 7,125 under construction, and some 1.5 million tourists visited the country in 1992. Free trade zones have been developed throughout the Dominican Republic; as of mid-1992, there were 29 of them. The country is linked by a modern network of highways, a railway system, 17 commercial ports, and 5 international airports.

The Dominican Republic's currency is the peso (RD$). As of the end of December 1992, the exchange rate was RD$12.50 = US$1.

January 25, 1993 • Volume 22, Number 2

Gerald R. Rosen, *Editor*

Paul Gleason • Vikram R. Khanna • Sheila Meehan • Margaret Casey • Elisa Diehl • Sharon Metzger • Susan Scott • Philip Torsani
Assistant Editor *Assistant Editor* *Assistant Editor* *Senior Editorial Assistants* *Editorial Assistant* *Art Editor* *Graphic Artist*

The *IMF Survey* (ISSN 0047-083X) is published by the International Monetary Fund 23 times a year, ordinarily on alternate Mondays, in addition to an annual *Supplement on the Fund*, an annual Index, and other occasional supplements. Editions are also published in French (*Bulletin*) and Spanish (*Boletin*).The opinions and materials contained in the *IMF Survey*, including any legal aspects, do not necessarily reflect the official views of the IMF. Editorial correspondence should be addressed to Current Publications Division, Room IS5-1500, International Monetary Fund, Washington, D.C. 20431, U.S.A. Telephone: (202) 623-8585. The *IMF Survey* is distributed by first-class mail in Canada, Mexico, and the United States, and by airspeed elsewhere. Private firms and individuals are charged an annual rate of US$60.00. Apply for subscriptions to Publication Services, Box S-99, IMF, Washington, D.C., 20431, U.S.A. Telephone: (202) 623-7430. Cable: Interfund. Facsimile: (202) 623-7201.